# LEGISLATIVE SERVICES AGENCY
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## FISCAL IMPACT STATEMENT

**LS 7735**
**BILL NUMBER:** SB 531

**NOTE PREPARED:** Jan 19, 2003
**BILL AMENDED:**

**SUBJECT:** Long Term Care Tax Deduction.

**FIRST AUTHOR:** Sen. Hershman
**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** X GENERAL
X DEDICATED
FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** The bill provides an income tax deduction for an individual who sells a capital asset to pay long term care expenses.

**Effective Date:** July 1, 2003; January 1, 2004.

**Explanation of State Expenditures:** The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate this tax credit. These expenses presumably could be absorbed given the DOR's existing budget and resources.

**Explanation of State Revenues:** The bill would reduce state Adjusted Gross Income (AGI) Tax liabilities of individual taxpayers who incur long term care expenses during the year, but utilize capital gains realized by the taxpayer to pay those expenses. The revenue loss due to this bill could potentially total approximately $859,000 to $2.7 M annually beginning in FY 2005. This assumes capital gains realizations similar to that realized in the late 1990's. Since the deduction is contingent on capital gains levels, the revenue loss could be lower in the near future to the extent that capital gains levels due to economic circumstances are not at levels experienced during the late 1990's.

The bill allows an AGI Tax deduction for individual taxpayers equal to the lesser of: (1) the long term care expenses incurred by the taxpayer in the taxable year; or (2) the amount of capital gains used by the taxpayer in the taxable year to pay the long term care expenses. Deductible long term care expenses are expenses directly incurred in the acquisition of long term care, but not including premiums paid for a long term care insurance policy.

Based on Congressional Budget Office forecasts for out-of-pocket long term care expenses, it is estimated that out of pocket expenses of Indiana residents could potentially total about $700.0 M annually. Based on national survey data regarding long term care use, it is assumed that almost all of the impact of this bill will arise from elderly taxpayers. This survey data also suggests that annually only about 5.7% of the elderly population will use formal or institutional long term care services that will require payment. Federal income tax return data for Indiana suggests that about 413,000 returns are filed each year by elderly Indiana taxpayers. About 134,000, or 32%, of these returns reported some capital gains in 1999. Capital gains reported on these returns totaled about $2.7 billion in 1999. The lower range estimate assumes that only 32% of elderly taxpayers incurring long term care expenses (and a proportionate share of the total expenses) are attributable to the elderly group reporting capital gains. The high range estimate assumes that all elderly taxpayers incurring long term care expenses realize capital gains. Thus, deductible long term care expenses are estimated to range from $25.2 M to $79.0 M annually, with a tax impact ranging from about $859,000 to $2.7 M annually. The variance of reported capital gains and long term care costs is accounted for within the taxpayer groups.

Since the deduction is effective beginning in tax year 2004, the fiscal impact would begin in FY 2005. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of this revenue is deposited in the Property Tax Replacement Fund.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** Because the proposed deduction would serve to decrease taxable income, counties imposing local option income taxes (CAGIT, COIT, and/or CEDIT) may, as a result, experience an indeterminable decrease in revenue from these taxes.

**State Agencies Affected:** Department of State Revenue.

**Local Agencies Affected:** Counties with a local option income tax.

**Information Sources:** OFMA income tax database, 1999. *Projections of Expenditures for Long-Term Care Services for the Elderly*, U. S. Congressional Budget Office, March 1999. *Fact Sheet: Selected Long-Term Care Statistics*, Family Caregiver Alliance. *Characteristics of Long-Term Care Users*, U.S. Agency for Heathcare Research and Quality, 1998.

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